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Hong Kong

Market Development Reports

Hong Kong Food Inflation

2008

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Report Highlights:

Between February 2007 and February 2008, food prices increased 19.5 percent. The annual statistics, as stark as they are, mask the fact that most of the price increases have taken place in recent months. Retail food prices between January and February 2008 alone rose 6.4 percent, accounting for one-third of the annual increase. Despite this increase, the Hong Kong government has not implemented any programs to encourage local food production or to restrict food exports. Hong Kong is almost completely import-dependent for its food supplies. It supports insignificant farming and a very small food processing industry. Neither does it hold any food reserves. Food inflation in Hong Kong has been led by steep increases in meat prices. The year-on-year change in pork price for February 2008 was 56 percent. Hong Kong's inflation is also fuelled by a host of internal factors including strong domestic demand, a weakening currency that is tied to the U.S. dollar, and rising food prices in Mainland China, Hong Kong's largest supplier. Hong Kong is an affluent economy with an average of 10 percent of household expenditure spent on store-bought food and another 17 percent on eating out. Hong Kong does not receive any food aid.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Hong Kong [HK1]
[HK]

Hong Kong's accelerating inflation rate is primarily due to rising food prices. The year-on-year change in the Consumer Price Index (CPI) in February 2008 was 6.3 percent but among the various CPI components, the most significant price increase was recorded for food stuffs, which reached 19.5 percent in February 2008. Food groups with the most remarkable increase include pork (56%), beef (49%), rice (23.4%), poultry (19.1%), fresh vegetables (32.7%), edible oils (20.8%) and eggs (18.2%). In addition, Hong Kong's inflation is also fuelled by a host of internal factors including strong domestic demand, a weakening currency is tied to the U.S. Dollar, domestic rising wages and rentals.

The annual statistics, as stark as they are, mask the fact that most of the price increases have taken place in recent months. Retail food prices between January and February 2008 alone rose 6.4 percent, accounting for one-third of the annual increase.

Hong Kong is roughly 95% dependent on imports for its food supplies. With one of the largest per capita incomes in Asia, Hong Kong is not a food aid recipient. To economize, some consumers are shifting their consumption from fresh to frozen meats. Hong Kong has insignificant farming and a relatively minor food processing industry. Though transshipments inflate export statistics, Hong Kong is not a food-supplying market. Also, it holds no food reserves as a means of regulating prices. Apart from securing verbal commitments from Thailand and Beijing to continue supplying rice, there has been no official response to the current food inflation. That said, sources indicate officials are concerned about the issue.

Despite the high inflation rate, Hong Kong is expected to maintain its free trade policy. As Thai rice prices increased significantly, Hong Kong traders began exploring opportunities to source from China. In response to reduced live pig and pork supplies from China, Hong Kong increased its pork purchases from other countries, such as the U.S., Brazil, Spain and Germany. Because the Hong Kong currency is pegged to the U.S. Dollar, Hong Kong traders find it more price-attractive to source products from the U.S. In 2007, U.S. exports to Hong Kong increased 28 percent. Hong Kong, despite a small population of 7 million, is the 8th largest market for U.S. consumer-ready products.

While officials expect acute food inflation to continue in 2008 as a result of rising commodity prices and strong economic growth forecast at 4 to 5 percent, local economists forecast that the odds of run-away inflation are low.

China is Hong Kong's leading food supplier, accounting for about 21 percent of Hong Kong's food imports. China has pledged full support for Hong Kong's food supplies. However, there is no guarantee for food being offered at stable prices. Given below are the price changes between February 2007 – February 2008. Some of the increase is due to the 15 percent appreciation of the RMB over the past year. The recent price increases are well depicted in Table 3. Between January 2008 and February 2008, the store-bought food prices already increased by 6.4 percent in just one month.

Hong Kong's Inflation

Table 1: Year-on-year CPI Changes

Section	Year-on-year Change %	
	Prices Compared between Feb 2007	Prices Compared between 2006 and

	and Feb 2008	2008
	(%)	(%)
Food, (excluding meals bought away from home)	19.5	7.1
Non-food item		
Housing	9.2	2
Electricity, gas and water	7.4	-0.7
Alcoholic drinks & tobacco	0.9	-1.2
Clothing and footwear	0.6	4.1
Durable goods	-3.7	-4.7
Miscellaneous goods	4.1	2.5
Transport	1.2	-0.1
Miscellaneous services	1.4	1.7
All items	6.3	2

Source: Hong Kong Census & Statistics Department

The table above depicts that Hong Kong's 2007 CPI (Consumer Price Index) was 2 percent higher than 2006 while food prices alone increased by 7.1 percent. However, the February 2008 Year-on-year (yoy) food prices jumped as high as 19.5 percent contributing significantly to the 6.3 percent increase of February CPI change compared to February 2007. Other CPI components only indicated a single digit change rate. The figures, thus, show that Hong Kong's prices for almost all products are rising in 2008 but the striking spikes are in foodstuffs.

With respect to Hong Kong consumers' food basket in February 2008, the greatest price year-on-year changes were accounted by pork (56%), beef (49%), poultry (19.1%), eggs (18.2%), edible oils (20.8%), vegetables (32.7%) and rice (23.4%). From the table below, it is very discernible that the driving force for the current food inflation highly concentrates on meat products, with pork in particular.

Table 2: February Food Price Changes Compared to Preceding Year

Group of Commodity/Service	Food Prices Compared between Feb 2007 and Feb 2008 (%)
Food, excluding meals bought away from home	19.5
Rice	23.4
Other cereals and cereal preparations	10.2
Bread, cakes, biscuits and puddings	8
Salt-water fish	18.6
Fresh-water fish	13
Other fresh sea products	14.5
Processed sea products	10.5
Pork	56
Beef	49
Poultry	19.1

Meat, frozen	17.8
Meat, canned	31.6
Meats, others	24.7
Fresh vegetables	32.7
Processed vegetables	9.7
Fresh fruit	8.5
Process fruit	6.2
Dairy products	6.2
Eggs	18.2
Edible oils	20.8
Carbonated drinks	2
Other non-alcoholic beverages	2.9
Sugar	5.6
Confectionery	5.6
Flavorings and additives	7.1
Food, others	6.7

Source: Hong Kong Census and Statistics Department

Table 3: February Food Price Changes Compared to Preceding Month

Group of Commodity/Service	Food Prices Compared between Jan 2008 and Feb 2008 (%)
Food, excluding meals bought away from home	6.4 (annualized rate of 76.8%)
Rice	4
Other cereals and cereal preparations	1.4
Bread, cakes, biscuits and puddings	0.1
Salt-water fish	12.2
Fresh-water fish	9.1
Other fresh sea products	18.1
Processed sea products	2.1
Pork	9.1
Beef	5.6
Poultry	11.7
Meat, frozen	0.4
Meat, canned	1.8
Meats, others	3.8
Fresh vegetables	15.9
Processed vegetables	1.3
Fresh fruit	4.8
Process fruit	0.2
Dairy products	0.3
Eggs	3.8
Edible oils	2.5
Carbonated drinks	0.1
Other non-alcoholic beverages	0.3
Sugar	0.1

Confectionery	1.1
Flavorings and additives	1.9
Food, others	2.1

Source: Hong Kong Census and Statistics Department